fil

1967 ANNUAL REPORT

TRANE®

MANUFACTURING ENGINEERS OF AIR CONDITIONING, HEATING, VENTILATING, HEAT TRANSFER AND AIR FILTRATION EQUIPMENT

Financial Highlights

	1967	1966
NET SALES	$200,823,000	$187,779,000
NET EARNINGS Before Taxes on Income	23,230,000	25,830,000
Percent of Net Sales	11.6	13.8
Taxes on Income	11,855,000	12,550,000
NET EARNINGS After Taxes	11,375,000	13,280,000
Percent of Net Sales	5.7	7.1
Total Current Assets	107,254,000	99,462,000
Total Current Liabilities	22,131,000	24,383,000
Ratio of Current Assets to Current Liabilities	4.85	4.08
Working Capital	85,123,000	75,079,000
Stockholders' Equity	100,040,000	92,265,000
Long-Term Debt	40,571,000	26,965,000
Percent of Capital Investment	28.9	22.6
Expenditures for Property, Plant and Equipment, Net	17,452,000	16,269,000
Number of Stockholders	4,959	5,280
Per Common Shares Outstanding		
Net Earnings	2.11	2.47
Taxes on Income	2.20	2.34
Cash Dividends Paid	.80	.80
Stockholders' Equity	18.54	17.15

Contents

TRANE

[The Trane Company,
La Crosse, Wisc]

With 1967
Report

GENERAL INFORMATION

1. **Size of Facility:**

Office and cafeteria	61,000 sq.ft.
Factory incl. toolroom and services	300,000
Warehouse	34,000
Total Building	395,000 sq.ft.
Outside storage	58,000
Site acreage	16.5 acres

2. **Capacity:**

Manufactured products	$18,500,000

3. **Product Lines - 29:**

Unit Ventilators	Electric Baseboard	Force Flo
Convectors	Centrifugal Fans	Fan Coil UniTrane
Wall Fin	Utility Fans	Induction UniTrane
Unit Heater H	Propeller Fans	Cold Generator
Unit Heater P	Fluid Coolers	Open Compressor & Condenser Units
Gas Fired Unit Heater	Transportation	Heating Coils
Steam Specialties	Torrivent	Cooling Coils
Pumps	Climate Changer	Air Cooled Condenser
Baseboard	Sprayed Coil Dehumidifier	Horizontal Self Contained 2 - 15 ton
Splits 2 - 15 ton	Deluxe Self Contained	

4. **Employment:**

Factory	292 hourly
Office	239 salary
Total	531

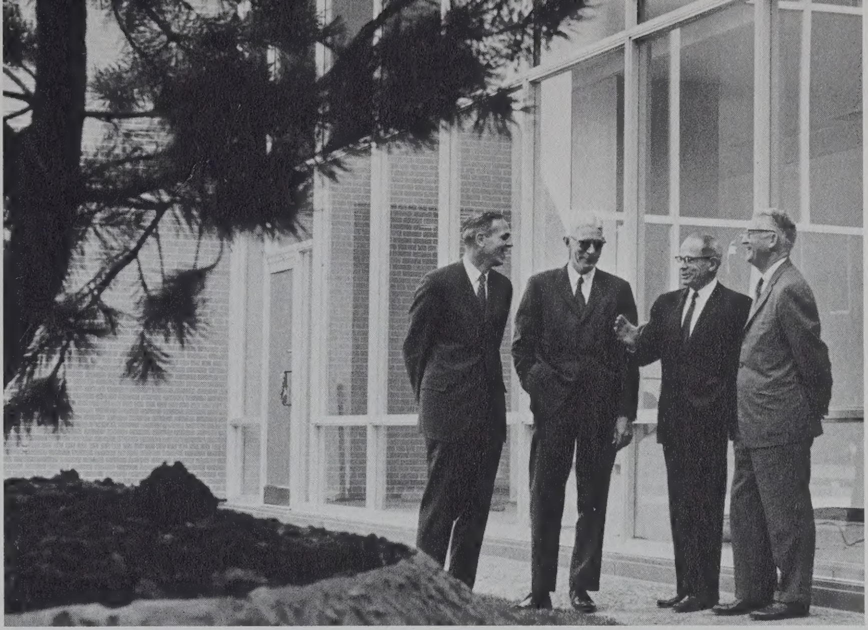
5. **Field Sales Organization:**

Offices - 19

Office managers	18
Sales engineers	51
Total Field	69
Service engineers	17

6. **Uses of Computer:**

Sales order control	Bills of material
Inventory status reporting	Direct labor reporting
Production control reporting	Sales order costing
Payroll	Basic sales statistics



Trane executive committee — Allen C. Menke, executive vice president; Wayne J. Hood, executive vice president and treasurer; Thomas Hancock, president and chief executive officer; and D. C. Minard, chairman of the board (left to right).

Letter to the Stockholders

The Company's rise in sales in 1967 occurred during a period when worldwide markets for its products remained about the same or might have declined slightly. This was possible mainly because of many things done in preceding years, particularly in product development and marketing.

The consolidated profit decrease occurred largely in the international side of the business. Over 70 percent of the consolidated decrease was from this source. This was caused primarily by the results at Trane Company of Canada and Societé Trane. The Canadian drop in earnings stemmed basically from a very substantial decline in the building market in that country. A sizeable loss at Societé Trane was anticipated and is considered a necessary part of entering the European market with the manufacture of standard heating, ventilating and air conditioning products.

Trane Ltd., which functions in the United Kingdom, ended the year with a small profit. This subsidiary company had its first full year of manufacturing operations in 1965.

On the whole, international operations are expected to improve in 1968. Each of the subsidiary manufacturing companies should show gains as a result of operating economies and the start of the manufacture of additional product lines. This should be particularly true in the case of Societé Trane. However, the effect on Trane Ltd. of recent action by the British Government is not yet fully known.

Earnings declined four percent in the United States mainly from rather substantial cost increases caused by an inflating economy.

Early in 1967, when it was apparent that the building industry would not perform as well as had been generally expected, the management established a policy that called for expense reduction and extraordinary precautions in the administration of prices. It was also decided to restrict new authorizations of capital expenditures for increased manufacturing capacity and to accelerate those that could produce cost reduction.

Also basic to the 1967 operating strategy was the conclusion that the pause in the growth of the Company's markets was temporary. Therefore, any action taken during this period in response to the existing market conditions should not be allowed to interfere with programs which would contribute to the long-range progress of the Company. This meant no diminution of activities in the areas of research, product development, employment of young college graduates as potential managers and strengthening the sales distribution organization.

Because the cost of materials, wages and salaries rose sharply during the year, the need for price increases became urgent. Prices on nearly all lines of products were increased, although competitive conditions did not always allow these increases to be sufficient.

During the year, separate negotiations were conducted with unions at the Trane Company of Canada, in Scranton, Pennsylvania and La Crosse, Wisconsin. Wage settlements were within the generally accepted pattern for similar companies with comparable manufacturing operations. A six-week strike occurred at the Scranton plant even though a negotiated settlement was recommended by the bargaining committee to the union membership.

In September, the Company issued $20 million of four percent convertible subordinated debentures. The revolving credit agreement of $25 mil-

lion, with Morgan Guaranty Trust Company of New York and other banks, was also extended.

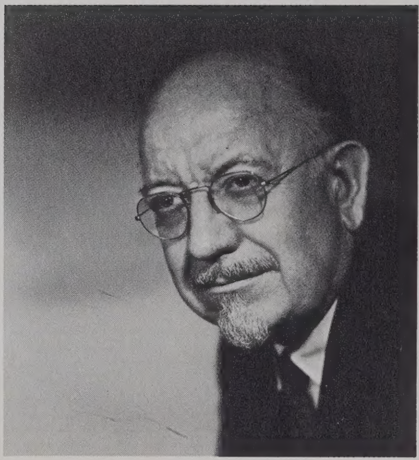
Construction of a new Administration Building in La Crosse was completed in 1967. It replaces a structure erected about 1920, various portions of which had been used earlier for manufacturing and as a laboratory.

Net capital expenditures in 1967, including the Administration Building, totaled $17.5 million. Very little new construction for manufacturing space was authorized. However, additional factory space in Canada, France and La Crosse which had been authorized earlier, was completed. The balance of capital expenditures was directed almost entirely at programs for cost reduction. Depreciation last year amounted to $6.4 million.

At the October board meeting, Dr. George H. Brown, executive vice president, Radio Corporation of America, was elected a director. Dr. Brown is also a director of RCA and is in charge of its engineering and research.

At the December board meeting, Mr. R. J. Trane's resignation was accepted with reluctance and regret. Mr. Trane had been an employee of the Company for 26 years, serving in various capacities; and was an executive vice president on his retirement as an employee in 1965.

Mr. Richard C. Davis was elected vice president, industrial relations, by the Board at its meeting in December. Mr. Davis joined Trane in 1953; and was appointed manager, industrial relations in 1965.



Dr. George H. Brown

While the Company's 1967 markets were about the same size as in the preceding year, the Company is confident its markets world-wide have ahead of them another period of growth. The current market condition, which is probably temporary, was generated mainly by governmental restrictions which in turn depressed building activity. This was particularly evident in both the United States and Canada, which account for the greatest proportion of Company sales. The building needs of this country and many others, however, are far from satisfied and will have to be fulfilled. This should offer a good, long-term prospect.

Furthermore, as building activity increases, the market for the products of the Company should rise more rapidly as a larger proportion of new structures erected, particularly residences, schools and factories, are air conditioned. A considerable market of existing buildings that have not yet been air conditioned also remains. Recently, added impetus has been given to the use of air conditioning as a means for combating air pollution, and also as a means for attracting and keeping capable employees during the current period of high employment.

It is likely that these forces will in the aggregate have a favorable effect on 1968. If that occurs, this Company should be in a position to participate as it has in the past. It enters the year with adequate manufacturing facilities, a group of new products which went into production in 1967, and additional ones on which selling activities commenced and on which production will start early in 1968. Its worldwide selling organization also has been strengthened in a number of ways. The most important of these is the addition of 327 sales engineers who have joined the sales organization in the last two years and who now enter a period of real productivity.

The management is grateful for the wholehearted effort put forth by the Company's employees because of the major contribution this has made to its progress. The harmonious spirit that has marked relations between this Company and the leaders of employee unions has also been of real importance and definite benefit to all.

D C Minard

Chairman, Board of Directors

Thomas Hancock

President and
Chief Executive Officer

Review of 1967 Operations

Sales

In 1967, the Company's sales rose approximately seven percent. This occurred without a significant increase in the size of the markets for Trane products. The resultant improvement in the share of the market, although moderate, was quite general throughout the areas in which the Company conducts selling activities.

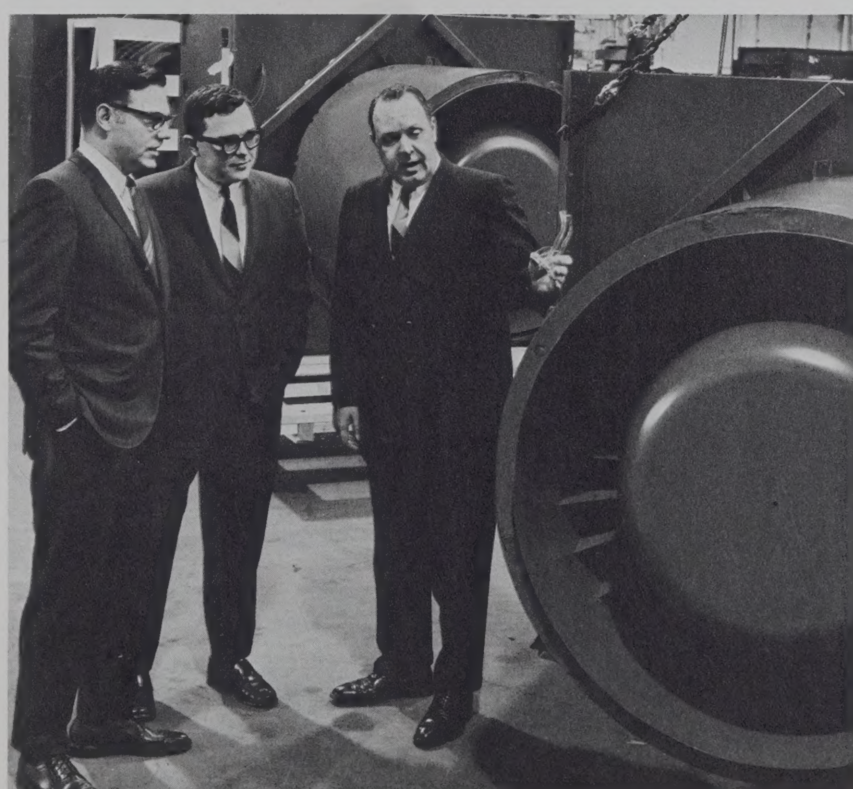
Market Outlook

Sluggishness in 1967 markets stemmed from a reduction of overall activity in the building industry of most countries, particularly the U.S. and Canada. This was not because of any reduction in the demand for building. Rather, it resulted from other factors, the principal one in the U.S. being the lack of adequate financing. The demand for building, therefore, not being satisfied in 1967, quite likely represents a rising backlog of demand which will have to be satisfied in ensuing years.

The Company enhanced its position in a number of market areas by the introduction of new and improved product lines. These results of the Company's research and development occurred in both heating and air conditioning products and involved lines which are applied in many types of buildings, including both residences and large commercial structures. Basic lines of products were covered, such as centrifugal and absorption water chillers. The Company also began shipment of its first air purification unit for use in homes. It is expected that this unit will become an increasingly popular part of a complete residential air conditioning system in future years.

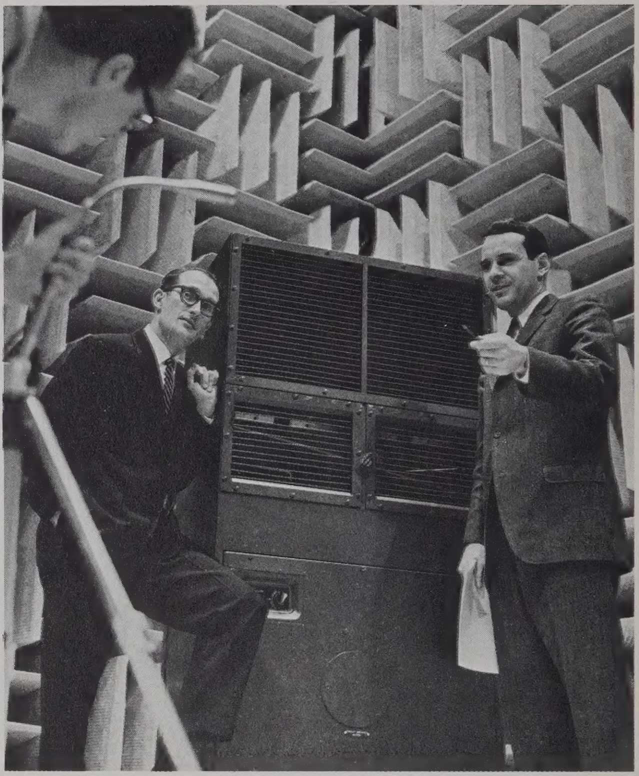
System of Distribution Emphasized

In 1967, more emphasis within the Company's marketing organ-



Above — vice president, sales, Fred Manget (right); W. C. Lindsay, Jr., vice president, distribution (center); and D. C. O'Keefe, manager, field sales, in the Dealer Development Program training center. In the background, a classroom session is conducted by E. A. Cline, manager, sales training.

Below — R. H. Pearse, Jr., vice president, air conditioning and heating sales (right); W. G. Roth, manager, heating sales (center); and D. W. Munson, manager, air conditioning sales, discuss air handling unit which features unique fan design.



ization was placed on methods of distribution. A major step in this direction was the appointment of W. C. Lindsay, Jr., as vice president of distribution for the U.S., putting all elements of the Company's distribution system—134 U.S. sales offices and the network of dealers and wholesalers—under one head.

The field selling organization was also strengthened, particularly in its relations with dealers, by the establishment of a number of department managers within the sales offices. A number of regional dealer managers, who work with the sales offices, were also added last year.

More New Sales Engineers Added

Trane further augmented its field sales force. Over 150 new sales engineers completed the Trane Graduate Engineer Training Program, which has been operating successfully for over 40 years. Under this course, university graduates are trained at Company headquarters in La Crosse to fill positions in the sales organization.

It has been recognized that more and more training is required throughout a salesman's career. During 1967, the Company developed and placed in effect a comprehensive sales training program under which formal courses in products, product application and selling techniques were furnished to the sales offices for use in training salesmen. As a part of the Company's considerable emphasis on the reduction of noise in its air conditioning systems, an acoustics seminar was presented to the field organization. This becomes the subject of meetings within the sales offices and also with groups of customers.

Dealer Organization Advances

The Company further increased the effectiveness of its dealer organization as the primary marketing channel through which Trane residential and small commercial equipment is sold. One result was a significant increase in average volume per dealer.

An important group of Trane dealers are the men who have been trained under the Dealer Development Program, inaugurated in 1965. Highly qualified individuals are selected for dealerships in markets not covered adequately by existing Trane dealers. These men receive intensive training in dealership organization and operation at Company headquarters, plus help in selecting a business location and in obtaining initial financing.

Additional dealer training is carried out by local Trane sales offices, using a Company-developed Profit Improvement Program. It embraces all aspects of dealer operation from sales training to accounting and financial analysis. To assist the sales offices

Left — J. K. Ver Hagen, manager, unitary sales (left), and F. M. Olsen, Jr., manager, advertising and sales promotion, examine residential products display.

W. H. Stahlheber, manager, heat transfer sales (right), and L. E. Eater, manager, military sales, review sound test procedure on Trane compact military air conditioner.

in carrying out this function, regional seminars on dealer distribution were held during the year.

Engineering and Research

Inasmuch as the air conditioning industry is relatively young, it has been characteristic that product improvements have evolved rather rapidly in recent years. That evolution has emphasized the need for regular and frequent product improvement by those manufacturers who are intent on maintaining a keen, competitive position.

Engineering and Research Efforts Emphasized

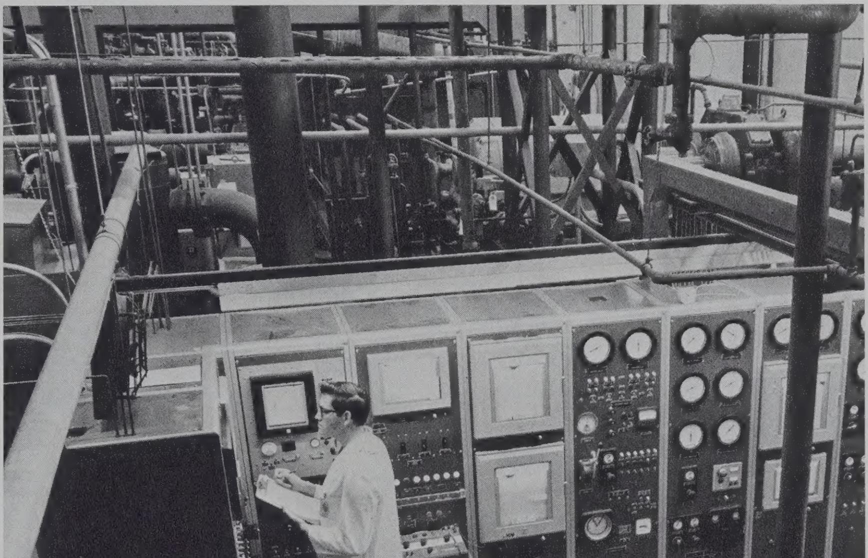
For that reason, and also because of the need to create new products as a means of entering new segments of its industry, the Company has placed considerable emphasis on its engineering and research activities. One of the results of this policy has been that by the end of 1967 some 80 percent of the Company's total U.S. sales represented products which were either new or substantially redesigned during the past five years.

In recent years, the Company has directed more and more attention to research activities. These involve a number of fields of science and engineering, but particularly heat transfer, thermodynamics, fluid dynamics, chemistry, metallurgy and acoustics. In 1967, the Company's activities in these fields resulted in a number of product innovations being put into production. Their primary effect was to reduce costs. It is expected that to an increasing extent new products and product improvements in the future will depend on the results of research.

The Company's Research and Testing Laboratories cover an area of 104,000 square feet and represent an initial investment of over $4 million. The Acoustics Laboratory and the cryogenic test installation, which are part of these facilities, are of special interest because of their somewhat unique features and the significance of the work being performed.

Reduction of the noise generated by air conditioning and refrigeration equipment is a basic direction in which this industry will proceed in improving its products. In 1967, among the direct results of the research conducted in the Acoustics Laboratory were design changes that reduced noise in several lines of reciprocating compressors.

Heat transfer surface is a basic part of almost all Trane products. Increased knowledge of heat transfer, therefore, can be of wide value to Trane. The cryogenic test installation, which began operation in 1966, is unique in this industry because of its capa-



H. Corbyn Rooks, vice president, engineering and research (left), and J. L. Monte Holman, manager, product development, in the cryogenic test facility.

bilities in testing heat transfer surface to temperatures as low as minus 300° F.

New Product Work Moves Forward

The product development group completed work on a series of products in 1967, selling efforts on all of which were started during the year. Production of a few, however, will not begin until early in 1968. As is usually true, product development work completed in one year will have its principal beneficial effect on operations in the succeeding year.

The heating products, on which development was completed, include a Wall-Fin convector primarily used in commercial and institutional buildings; baseboard convectors used principally in residential construction; a gas-fired furnace for homes; and gas-fired unit heaters for industrial and commercial applications.

Production began on a residential air purification unit. This product, when used along with a humidifier announced at the end of 1966, provides a means to filter the air, reduce odors, add moisture when needed, and also lower the level of smoke and pollen. A newly redesigned medium-sized unitary air conditioner for commercial application was also developed for 1967.

The Company's principal lines of large refrigeration products are its centrifugal and absorption water chillers. Many of the sizes of those lines of products were redesigned in 1967. All the sizes have been completely redesigned in the past three years.

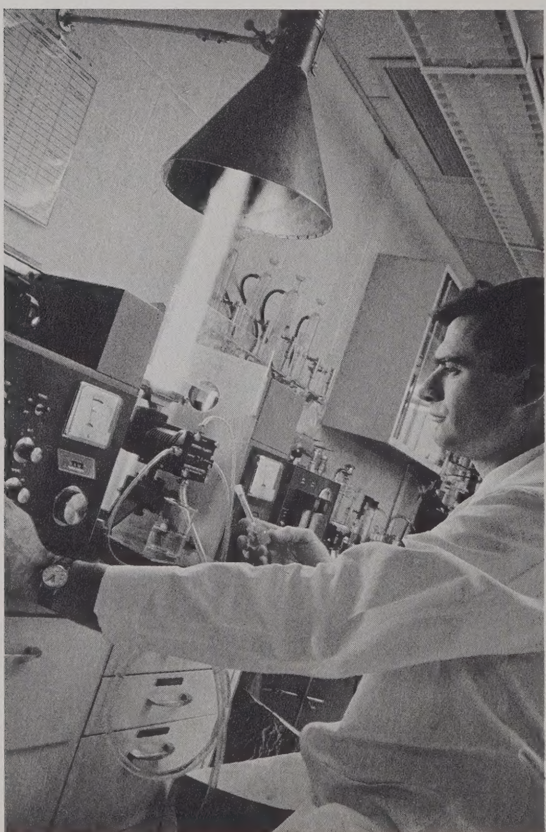
In all instances, the redesign work developed products that will be manufactured at lower cost and will also function at lower noise levels. In most instances, size has also been reduced, and to a significant degree. This is important in the design of buildings where cost per square foot of space places a value on compactness.

Product Idea Program Productive

In an effort to encourage greater creativity on the part of the research and engineering staff, the Company has placed special emphasis on a new product idea program. By the end of 1967 this program had produced a considerable number of ideas, nearly half of which are already being applied to products presently in production or currently under development.

Technical Education Opportunities Available

The Company expanded its education for research and engineering personnel during 1967.



In chemistry research, a lab technician uses an atomic absorption spectrometer to analyze metallic elements.

In the unitary equipment test area — C. D. Ware, chief engineer, heat transfer products; Arne Frank, chief engineer, reciprocating and unitary products; and D. H. Krans, laboratory director (left to right).

This program, which is managed within the Company by a separate department, is based on the need to insure that the Company's technical personnel have the benefit of the latest scientific knowledge in fields of the Company's interests.

The education program takes many forms. Regular courses are conducted at Company headquarters by recognized university-level authorities on a credit basis to provide technical personnel with the opportunity to achieve advanced degrees. In addition, outstanding experts are frequently invited to La Crosse to deliver lectures on scientific subjects of particular interest to the Company.

More Efficient Development Scheduling Achieved

One of the most important objectives in the administration of the Company's research and engineering activities is to complete development in the shortest possible time. This not only means efficient use of talent, but getting a larger number of saleable products on the market at the moment of greatest impact, and obtaining the benefit of cost reduction quickly. As a result, a complete review was conducted of the manner in which development work is organized, planned and carried out. That, along with more widespread use of critical path scheduling, has resulted in shortened development schedules.

Vice president, manufacturing, J. J. O'Brien (left), and W. S. Roush, manager, manufacturing engineering. At the control console, an operator starts a heavy piece of material into a room-like enclosure for grit-blast cleaning.

Manufacturing Operations

Manufacturing facilities in the United States were expanded only slightly in 1967 in keeping with the fact that the Company's markets did not increase and that the sales increase was moderate. The only additional U. S. production facility actually completed in 1967 was a 33,500 square-foot expansion to the factory that manufactures reciprocating compressors.

New Facilities Underway

During the year, a new factory of 170,000 square feet was under construction in La Crosse for the manufacture of absorption refrigeration machines. Construction had been authorized in 1966. Production will commence in early 1968. A warehouse addition of 38,000 square feet at the Scranton plant was authorized last year for completion in 1968.

The balance of the investment in fixed assets for manufacturing facilities in the U. S. was spent for machinery and equipment. Expenditures for cost reduction represented a large proportion of this total.

The new absorption refrigeration factory in La Crosse will provide a separate facility for the manufacture of that product. Production has heretofore been combined with the manufacture of centrifugal compressors. It is expected to produce manufacturing economies as well as to provide added output.

Progress Made on Operating Problems

During the year, considerable progress was made in overcoming

difficulties which had interfered with the flow of production and had also increased costs at the Lexington plant. For many months this plant has been producing at its rated capacity and more recently has shown a general improvement in costs.

The Scranton plant was affected by a six-week strike in April and May which occurred just shortly after that factory had commenced the manufacture of an additional line of products that had been transferred from La Crosse. This resulted in production difficulties during the year against which real progress had been made towards the end of 1967.

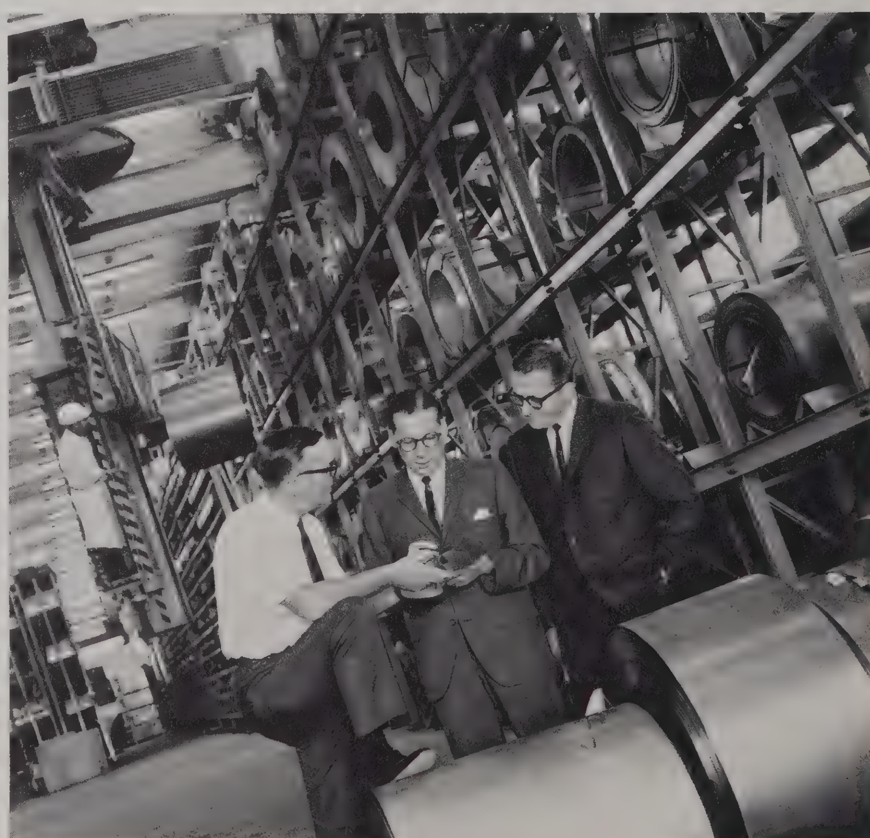
Advanced Manufacturing Engineering Work Reduces Costs

The manufacturing division's advanced manufacturing engineering department concentrates on devising and applying new manufacturing methods in metal forming, metal joining and machine automation in the manufacturing plants. This department produced several successes which yielded cost savings, the most notable of which were in coil manufacture. New techniques in material utilization developed by this group are expected to be of progressively greater importance.

International Operations

While there was a contraction last year in the international markets in which The Trane Company participates, it is nevertheless expected that this field will produce a strong and rising demand for modern air conditioning products. Therefore, the Company has in recent years embarked on a program to expand its international activities substantially.

The Company's international program involves both overseas manufacture of certain of its product lines along with the export from the U.S. of others.



Above — V. R. Simpson, Jr., vice president, international (left), and J. R. Selby, vice president, Europe.

Below — in the Toronto plant, E. C. Phillips, president and general manager of Trane Company of Canada, Limited (center), discusses operations with vice presidents K. E. O'Neil (left) and Ernest Schellenberg. In the background, a plant employee stocks rolled sheet metal used in the manufacture of several Trane products.

In recent years, manufacturing has been commenced through wholly-owned subsidiary companies in the United Kingdom and in Europe. This is being done along the pattern established at the Trane Company of Canada, Limited which has been a successful operation for many years. It is expected that more and more products will be manufactured by those subsidiary companies as markets enlarge and competitive pressures require.

The Company exports its U.S. manufactured products through its subsidiary companies which in turn sell them in their local markets; and also through a network of distributors which serve many countries where manufacturing operations are impractical at this time.

In the Republic of South Africa, the Company has entered into a joint venture with the establishment of Clark Trane (Proprietary) Ltd. to manufacture a limited line of products. It is possible that similar joint ventures involving a relatively small investment might be established to serve other relatively small markets where transportation costs and local import restrictions do not allow competitive export.

Trane Ltd. Shows Promise

For its 1967 fiscal year, Trane Ltd. earned a modest profit. This was the subsidiary's first profitable year. Trane Ltd. completed its first full year of manufacturing in 1965. More important, the change from unprofitable to profitable status occurred about on schedule.

In reaching a profitable status, Trane Ltd. has developed effective local management which it is believed is in a position to continue the progress shown to date.

It is estimated the subsidiary's share of market increased in 1967 in spite of a significant decline brought about by Government action in the overall United Kingdom market for its goods.

To facilitate future expansion in Scotland, the Company acquired a 22-acre site adjacent to the present leased plant.

Societé Trane Manufacturing Start-up

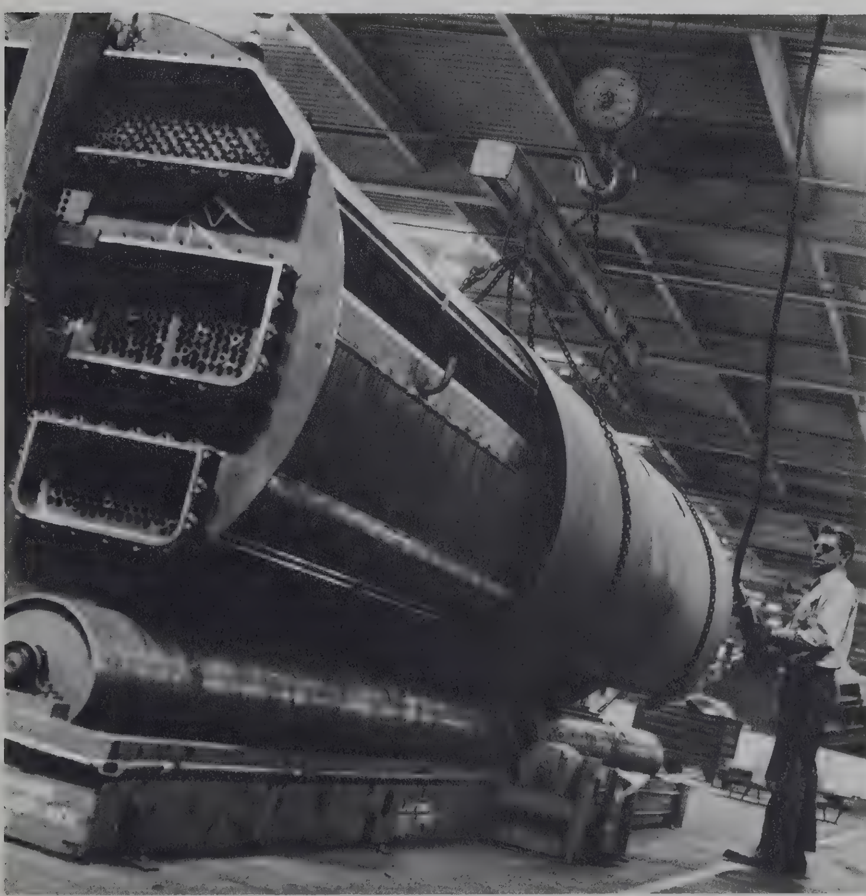
During 1967 the manufacture of standard line products commenced at the new 161,000 square-foot Societé Trane plant at Epinal, France with shipments of the initial product lines starting in the second half of the year. This new factory is the vehicle by which Trane plans to increase its participation in the European Common Market.

Societé Trane has incurred substantial planned start-up expenses in the establishment of its manufacturing capability. The outlook for this subsidiary indicates that these costs reached a peak during 1967 and should decline.

Canadian Subsidiary's Markets Down

The Canadian subsidiary of the Company was faced with a substantial market decline in 1967 due to considerable softness in the Canadian building industry. This obviously had an adverse effect on the performance of the subsidiary.

Profit performance was also affected by a lack of sufficient manufacturing space. In consequence, an addition of some 80,000 square feet was made to the Toronto plant during 1967. This addition, over and above increasing the capacity of the facility, will have the effect of providing cost reduction by



Trane absorption water chiller is positioned on fixture rollers which allow unit to be rotated easily for fast, precision welding.

allowing for more efficient manufacturing.

Middle and Far East Unrest Affects Export Sales

Political unrest adversely affected the amount of business available in the area served by the Company's export organization, particularly the Middle and Far East. However, a sales increase was accomplished.

The export organization took steps to improve and strengthen its distribution during the year. New distributors were added in Ceylon, Iran, Honduras and Venezuela. This brings to 57 the number of distributors currently franchised by the Trane organization. These firms do business in 66 countries.

Industrial Relations

The success of the Company is, of course, heavily dependent upon attracting and retaining outstanding employees, a need which is accentuated when expansion must be accommodated.

Manpower Needs Met

Meeting Trane manpower requirements was particularly difficult in 1967, since the U.S. economy was operating essentially at a full-employment level. Consequently, competition for outstanding individuals was intense.

Trane manpower needs were met last year. The heaviest requirement was for graduate engineers to fill positions in sales, engineering and manufacturing which was fulfilled through recruiting efforts at leading colleges and universities.

Labor shortages developed at a number of the Company's branch plant locations. So that the Company could be successful in fulfilling its personnel needs and, in addition, maintain a stable work force, new programs of employee relations were instituted. As a result, satisfactory manpower levels were obtained and attrition rates lowered.

Labor Contracts Signed

New labor agreements at three plant locations were signed in 1967.

During the first quarter, the Company successfully negotiated a two-year contract for its production workers at Trane Company of Canada, Limited.

Then, following a six-week strike, a three-year contract was signed at Scranton. The strike occurred despite a strong union recommendation for acceptance of the Company's prestrike offer. The membership, however, rejected the proposal by a margin of three votes and the strike followed.

In the third quarter, contracts were negotiated with the three unions representing employees at the La Crosse plants. This is the second consecutive negotiation at La Crosse which has resulted in contracts being ratified by the membership prior to termination date.

Financial

The growth of the Company has generated a need for capital which cannot be supplied from retained earnings in spite of a conservative dividend policy. As a result, the Company was active in the long-term money markets both at home and abroad.

In December of 1965 the Company entered into a credit agreement with the Morgan Guaranty Trust Company of New York, as agent for a group of banks under which the Company was able to borrow up to $10 million for a period of two years, with the opportunity to convert to a five-year loan with semiannual amortization during that period. In

R. C. Davis, vice president, industrial relations; D. N. Goode, industrial relations manager, branch plants; and C. W. Krupp, industrial relations manager, La Crosse (left to right), in the heavy refrigeration equipment manufacturing plant.

April of 1966, the maximum amount available under the agreement was increased to $25 million.

These funds were designed at the time to provide interim financing to meet corporate needs until a detailed assessment could be made of the state of the money market in relation to the requirements of the Company. After analysis, it was determined that some long-term funds should be obtained from the public during 1967 through the use of convertible debentures. As a result, an issue of four percent Convertible Subordinated Debentures in the amount of $20 million was brought to market in late September of last year.

In addition to the long-term debenture financing, the Company extended its credit agreement for an additional two years effective as of December 1, 1967.

Other than the nominal amounts of stock issued under the Stock Option Plan, the Company has not obtained funds from the sale of equity since 1957.

Foreign Subsidiaries Obtain Financing

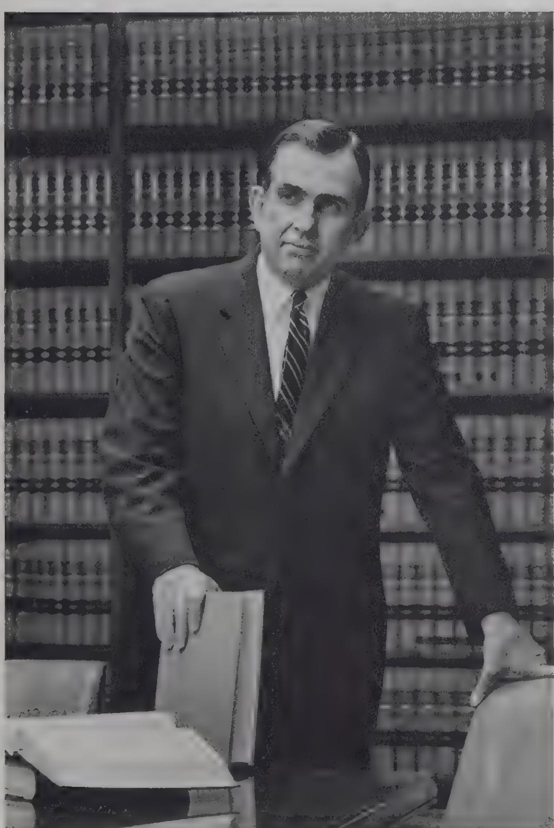
During 1967, Societé Trane, the French subsidiary, borrowed the equivalent of $1.8 million from commercial banks in that country. The loan was for five years with repayment in the third through fifth years, at favorable government approved rates of interest. Additional capital for the construction of a standard lines plant at the subsidiary headquarters in Epinal, France was also provided by its parent, Trane S.A., a wholly-owned Swiss subsidiary of the Company.

Trane Ltd., the British subsidiary, received a promise of financing from the British Board of Trade for use in construction of additional manufacturing facilities in Scotland. The actual borrowing of this money will depend on the requirements of expansion plans now under consideration.

While devaluation of the British pound reduced the dollar values of the net assets of Trane Ltd., this reduction was almost entirely covered by a "hedging" transaction.

During 1967, as in previous years, all subsidiary financing transactions were well within the U. S. Government's balance of payments guidelines.

Reported results of operations reflect what is believed to be conservative accounting policy. Some examples of this are the use of accelerated depreciation (sum-of-the-year's digits), valuing inventories on the LIFO basis, and having the past service liability of pension plans approximately 75 percent funded.



Charles Hansen, secretary and general counsel.

Emmett McLaughlin, vice president, purchasing (left), and Gerald Stecker, vice president and controller, in the Trane data processing center.

Consolidated Financial Summary 1958-1967

	1967	1966	1965	1964	1963
Net Sales	$200,823,000	$187,779,000	$162,330,000	$136,937,000	$120,370,00
Net Earnings Before Taxes on Income	23,230,000	25,830,000	23,814,000	20,662,000	16,452,00
Percent of Net Sales	11.6	13.8	14.7	15.1	13.
Taxes on Income	11,855,000	12,550,000	11,734,000	10,422,000	8,143,00
Net Earnings After Taxes	11,375,000	13,280,000	12,080,000	10,240,000	8,309,00
Percent of Net Sales	5.7	7.1	7.4	7.5	6.
Total Current Assets	107,254,000	99,462,000	80,779,000	69,904,000	58,053,00
Total Current Liabilities	22,131,000	24,383,000	19,834,000	18,371,000	13,303,00
Ratio of Current Assets to Current Liabilities	4.85	4.08	4.07	3.81	4.3
Working Capital	85,123,000	75,079,000	60,945,000	51,533,000	44,750,00
Stockholders' Equity	100,040,000	92,265,000	83,004,000	74,370,000	66,807,0
Long-Term Debt	40,571,000	26,965,000	11,430,000	6,918,000	7,238,0
Percent of Capital Investment	28.9	22.6	12.1	8.5	9.
Number of Stockholders	4,959	5,280	5,134	4,854	4,37
Common Shares Outstanding (At end of year and restated for stock distributions)	5,410,514	5,388,004	5,377,008	5,364,116	5,350,5

PER COMMON SHARE OUTSTANDING
(Based on average shares outstanding)

	1967	1966	1965	1964	1963
Net Earnings	$ 2.11	$2.47	$2.25	$1.91	$1.
Taxes on Income	2.20	2.34	2.18	1.94	1.
Cash Dividends Paid	.80	.80	.65	.525	.
Stockholders' Equity	18.54	17.15	15.46	13.88	12.
Stock Distribution	——	——	——	1 for 1	—

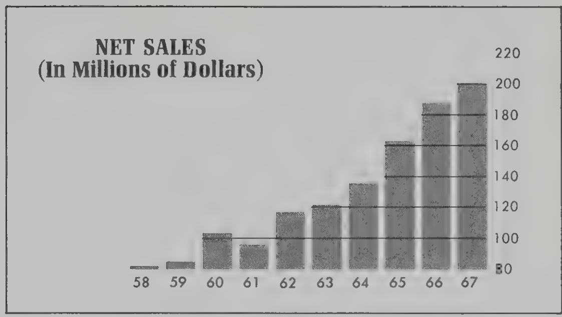
Consolidated Statement of Source and Application of Funds

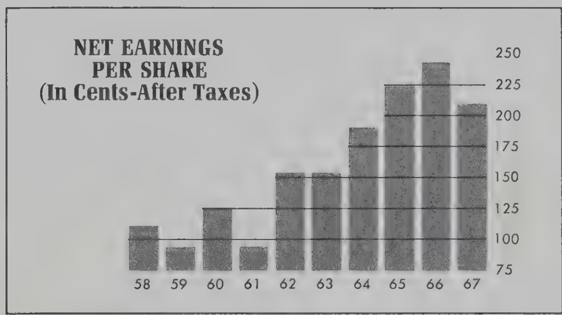
FUNDS PROVIDED	1967	1966	1965	1964	1963
Net Earnings for the Year	$ 11,375,000	$ 13,280,000	$ 12,080,000	$ 10,240,000	$ 8,309,0
Depreciation	6,893,000	5,608,000	4,650,000	4,390,000	4,374,0
Sale of Common Stock	816,000	289,000	315,000	271,000	25,0
Long-Term Borrowing	21,519,000	16,200,000	5,110,000	291,000	1,988,0
Total Funds Provided	40,603,000	35,377,000	22,155,000	15,192,000	14,696,0
FUNDS APPLIED					
Expenditures for Property, Plant and Equipment, Net	17,452,000	16,269,000	8,385,000	4,850,000	9,675,0
Retire Long-Term Debt	8,231,000	665,000	598,000	611,000	689,0
Cash Dividends Declared	4,320,000	4,308,000	3,761,000	2,948,000	2,675,0
Other	556,000	——	——	——	—
Total Funds Applied	30,559,000	21,242,000	12,744,000	8,409,000	13,039,0
Increase in Working Capital	$ 10,044,000	$ 14,135,000	$ 9,411,000	$ 6,783,000	$ 1,657,0

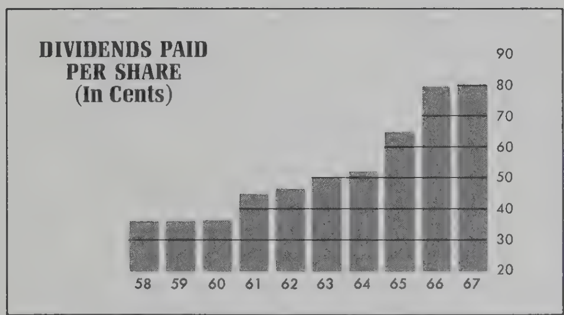
1962	1961	1960	1959	1958
17,535,000	$96,317,000	$102,461,000	$84,113,000	$81,572,000
17,908,000	11,209,000	14,959,000	10,926,000	13,093,000
15.2	11.6	14.6	13.0	16.1
9,570,000	6,092,000	8,247,000	5,900,000	7,075,000
8,338,000	5,117,000	6,712,000	5,026,000	6,018,000
7.1	5.3	6.6	6.0	7.4
57,593,000	46,481,000	46,332,000	40,834,000	39,237,000
14,500,000	11,022,000	11,677,000	8,847,000	9,340,000
3.97	4.22	3.97	4.62	4.20
43,093,000	35,459,000	34,655,000	31,987,000	29,897,000
61,149,000	55,419,000	52,314,000	47,677,000	44,527,000
5,939,000	2,500,000	2,850,000	3,200,000	3,550,000
8.9	4.3	5.2	6.3	7.4
4,479	4,423	4,147	4,165	4,172
5,349,406	5,349,406	5,328,944	5,326,270	5,323,358

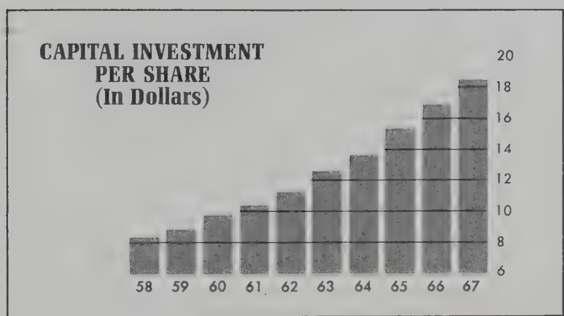
$1.56	$ .96	$1.26	$ .94	$1.13
1.79	1.14	1.55	1.11	1.33
.475	.45	.36	.36	.36
11.43	10.38	9.82	8.95	8.37
——	——	1 for 4	——	——

1962	1961	1960	1959	1958
8,338,000	$ 5,117,000	$ 6,712,000	$ 5,026,000	$ 6,018,000
4,008,000	3,737,000	3,424,000	2,979,000	2,535,000
——	388,000	46,000	42,000	19,000
4,000,000	——	——	——	——
16,346,000	9,242,000	10,182,000	8,047,000	8,572,000
5,543,000	5,687,000	5,044,000	3,689,000	4,351,000
561,000	350,000	350,000	350,000	1,990,000
2,608,000	2,401,000	2,120,000	1,918,000	1,917,000
——	——	——	——	——
8,712,000	8,438,000	7,514,000	5,957,000	8,258,000
7,634,000	$ 804,000	$ 2,668,000	$ 2,090,000	$ 314,000









Consolidated Balance Sheet

December 31, 1967 and 1966

	1967	1966
CURRENT ASSETS		
Cash	**$ 15,452,000**	$ 10,640,000
Accounts receivable—less allowance for doubtful receivables of $878,000 and $913,000	**47,860,000**	43,053,000
Inventories—at lower of cost (principally last-in, first-out) or market	**42,347,000**	44,379,000
Prepaid expenses	**1,595,000**	1,390,000
Total current assets	**107,254,000**	99,462,000
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	**1,518,000**	1,463,000
Buildings	**41,453,000**	32,181,000
Machinery and equipment	**43,145,000**	37,691,000
	86,116,000	71,335,000
Less accumulated depreciation and amortization	**31,406,000**	27,184,000
	54,710,000	44,151,000
OTHER ASSETS	**778,000**	—
	$162,742,000	$143,613,000

	1967	1966
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 16,068,000**	$ 15,270,000
Federal, state and foreign income taxes	**4,414,000**	6,267,000
Dividend payable	**1,082,000**	1,078,000
Current maturities of long-term debt and notes payable	**567,000**	1,768,000
Total current liabilities	**22,131,000**	24,383,000
LONG-TERM DEBT (see notes)	**40,571,000**	26,965,000
STOCKHOLDERS' EQUITY (see notes)		
Common stock, par value $2 per share Authorized, 7,500,000 shares Issued: 1967, 5,412,214 shares 1966, 5,388,004 shares	**10,824,000**	10,776,000
Capital contributed in excess of par value of stock issued	**14,987,000**	14,219,000
Retained earnings	**74,325,000**	67,270,000
	100,136,000	92,265,000
Less treasury stock, at cost—1,700 shares	**96,000**	—
	100,040,000	92,265,000
	$162,742,000	$143,613,000

(See accompanying notes to financial statements)

Consolidated Statement of Earnings

Year Ended December 31, 1967 and 1966

	1967	**1966**
Net Sales	**$200,823,000**	$187,779,000
Costs and expenses (including depreciation of $6,893,000 and $5,608,000 computed by accelerated methods)		
Cost of goods sold	**125,629,000**	113,841,000
Selling, administrative and engineering expenses	**49,967,000**	46,962,000
Interest expense	**1,997,000**	1,146,000
Federal, state and foreign taxes on income	**11,855,000**	12,550,000
	189,448,000	174,499,000
Net earnings for the year	**$ 11,375,000**	$ 13,280,000
Earnings per share of common stock (see note)		
Based on average shares outstanding during the year	**$2.11**	$2.47
Based on assumption of conversion of outstanding convertible debentures and exercise of outstanding stock options	**$2.08**	$2.45

Consolidated Statement of Retained Earnings

Year Ended December 31, 1967 and 1966

	1967	**1966**
Balance at beginning of year	**$ 67,270,000**	$ 58,298,000
Net earnings for the year	**11,375,000**	13,280,000
	78,645,000	71,578,000
Cash dividends declared ($.80 per share)	**4,320,000**	4,308,000
Balance at end of year	**$ 74,325,000**	$ 67,270,000

(See accompanying notes to financial statements)

Notes to Financial Statements

SUBSIDIARY COMPANIES: The consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries. These subsidiaries, which are principally foreign companies, had net assets of $14,600,000 at December 31, 1967 including $7,900,000 in Canada and the balance largely in the United Kingdom and Western Europe. Sales and net earnings of these subsidiaries were $29,301,000 and $4,000 in 1967 and $30,290,000 and $1,380,000 in 1966, respectively.

EARNINGS PER SHARE: Per share data is based on the average number of common shares outstanding during each year. In prior reports, per share data was based on the number of shares outstanding at the end of the year.

RETAINED EARNINGS: Under the most restrictive provision of the Company's several borrowing agreements, approximately $23,430,000 of retained earnings is available at December 31, 1967 for cash dividends and purchases of the Company's common stock.

PENSIONS: The Company and its Canadian subsidiary maintain trusteed pension plans covering salaried and certain hourly-paid employees. These plans are noncontributory, except for two plans at the Canadian subsidiary. The total pension expense for the year was $1,402,000. The Company's policy is to fund accrued pension cost. The amount funded at December 31, 1967 exceeds the actuarially computed value of benefits vested under the plans at that date.

STOCK OPTIONS: Under the 1956 and 1966 stock option plans, options have been granted to officers and key employees to purchase shares of common stock at prices not less than 95% of fair market value on the date of grant for options granted prior to 1964 and 100% of fair market value thereafter. Options generally become exercisable either one or five years after the date of grant, and terminate five or ten years thereafter.

A summary of the 1956 and 1966 stock option plans is as follows:

	1956 Plan	1966 Plan
	Number of shares under option	
Outstanding at beginning of year	68,202	19,500
Changes during the year		
Granted	—	11,100
Exercised	(20,636)	(3,000)
Outstanding at end of year	47,566	27,600
Exercisable at end of year	47,566	16,500
Available for grant at end of year	—	29,400
	Average price per share	
Granted during the year	$ —	$ 59.125
Exercised during the year	$ 31.51	$ 46.67
Outstanding at end of year	$ 36.91	$ 52.11

LONG-TERM DEBT: Amounts due consisted of the following (less current maturities of $474,000 and $473,000, respectively):

	December 31, 1967	1966
3¾% unsecured note, payable in annual installments of $250,000 to 1971	$ 750,000	$ 1,000,000
4¾% unsecured notes, payable in annual installments of $200,000 to 1982	2,800,000	3,000,000
Mortgage notes payable in monthly installments to 1978 with interest at 3%	1,363,000	1,482,000
4% convertible subordinated debentures due in 1992	20,000,000	—
Notes payable—banks	13,000,000	20,500,000
Notes payable by foreign subsidiaries	2,658,000	983,000
	$40,571,000	$26,965,000

The subordinated debentures are convertible into common stock of the Company (unless previously redeemed) at $72.00 per share to September 15, 1992. The Company has reserved 277,778 shares of its authorized but unissued common stock for the possible future conversion of these debentures. The Company is required to make annual sinking fund payments commencing in 1977 equal to 5% of the principal amount of debentures outstanding at September 15, 1976.

Notes payable—banks represent borrowings made under a $25,000,000 revolving credit agreement. Interest is payable at prime commercial rates. The notes may be renewed every 90 days to December 31, 1969. At any time up to that date, the Company may convert any portion of the revolving credit to term notes which will then bear interest at ¼ of 1% over prime commercial rates. The term notes will be payable in ten equal semiannual installments commencing June 30, 1970.

The notes payable by foreign subsidiaries bear interest at 5½% to 6½%, and mature in varying annual amounts through 1978.

CAPITAL CONTRIBUTED IN EXCESS OF PAR VALUE OF STOCK ISSUED: The increase of $768,000 during 1967 includes $743,000 representing the excess of proceeds received on the exercise of stock options over the par value of the shares issued, and $25,000 representing the excess of market price over the par value of 574 shares issued to employees in connection with The Trane Bonus Plan.

Opinion of Independent Accountants

PRICE WATERHOUSE & CO.

PRUDENTIAL PLAZA

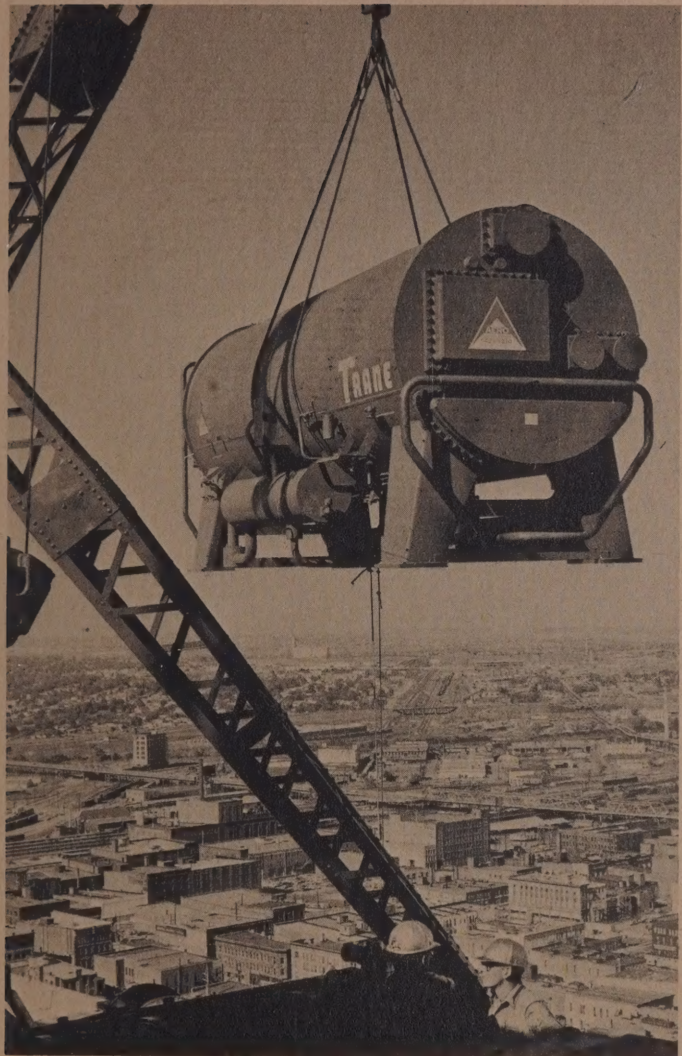
CHICAGO 60601

January 22, 1968

To the Stockholders and Board of Directors
The Trane Company

In our opinion, the accompanying balance sheet and the related statements of earnings and retained earnings and source and application of funds present fairly the consolidated financial position of The Trane Company and subsidiaries at December 31, 1967 and 1966 and the results of their operations and their source and application of funds for those years, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.



Trane absorption water chiller being hoisted to the top of 42-story Brooks Towers — tallest building in Denver.

Directors and Officers

Directors

D. C. Minard
Chairman
Thomas Hancock
Wayne J. Hood
Allen C. Menke
George H. Brown
DeWitt Peterkin, Jr.
Frank Trane
Maynard P. Venema

Officers

D. C. Minard
Chairman, Board of Directors

Thomas Hancock
President and Chief Executive Officer

Wayne J. Hood
Executive Vice President and Treasurer

Allen C. Menke
Executive Vice President

Vice Presidents

R. C. Davis
W. C. Lindsay, Jr.
Fred Manget
E. C. McLaughlin
J. J. O'Brien
R. H. Pearse, Jr.
H. Corbyn Rooks
J. R. Selby
V. R. Simpson, Jr.
Gerald Stecker

Charles Hansen
Secretary and General Counsel

Trane Company of Canada, Limited

Edwin C. Phillips
President and General Manager

K. E. O'Neill
Vice President

Ernest Schellenberg
Vice President

Trane Western Hemisphere, Inc.

V. R. Simpson, Jr.
President

Trane S. A. (Switzerland)

Thomas Hancock
Chairman, Board of Administrators

V. R. Simpson, Jr.
President

Subsidiaries of Trane S.A.

Societé Trane

Roger Condamin
President-Directeur General

Trane Ltd. (United Kingdom)

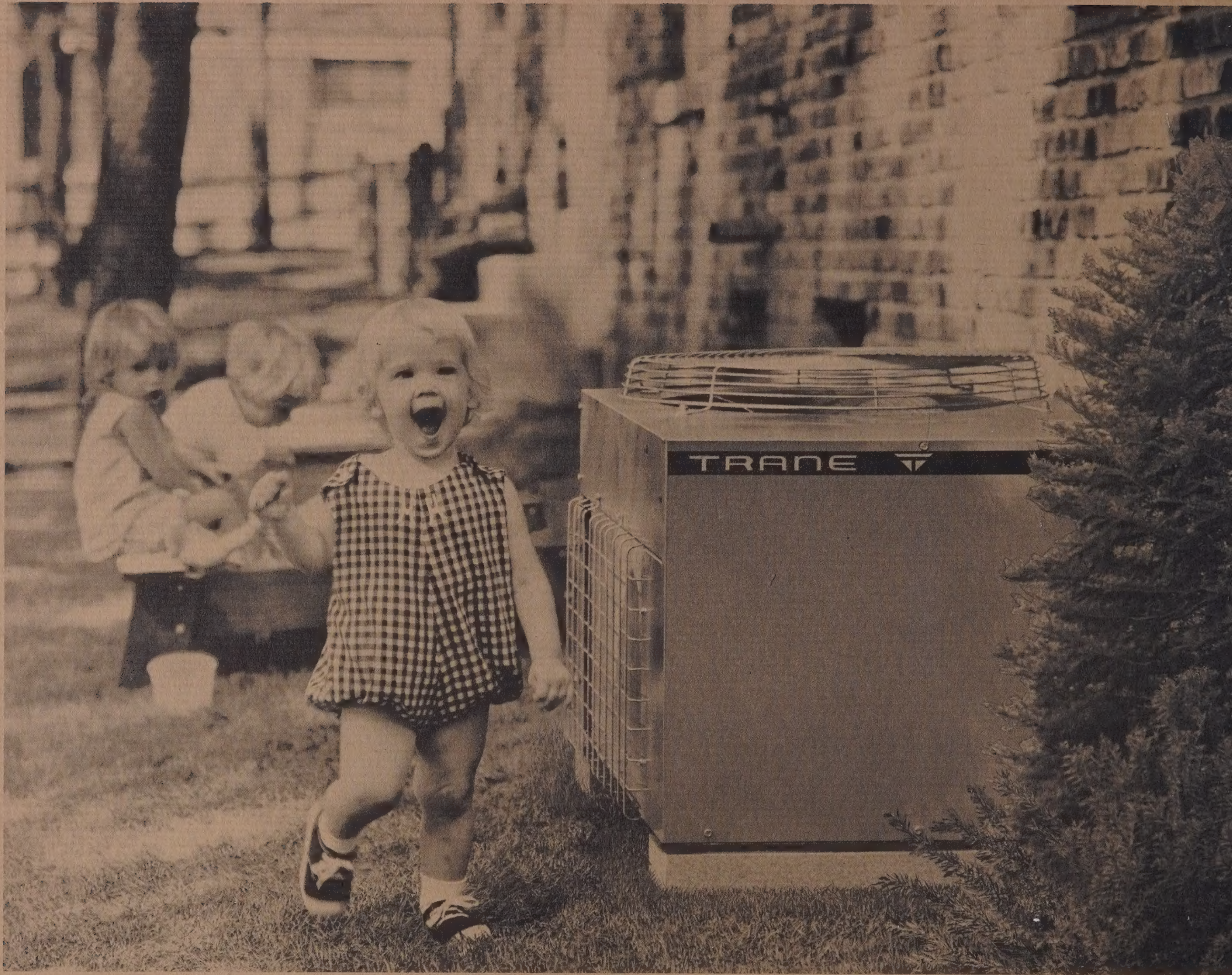
J. L. Knight
Managing Director

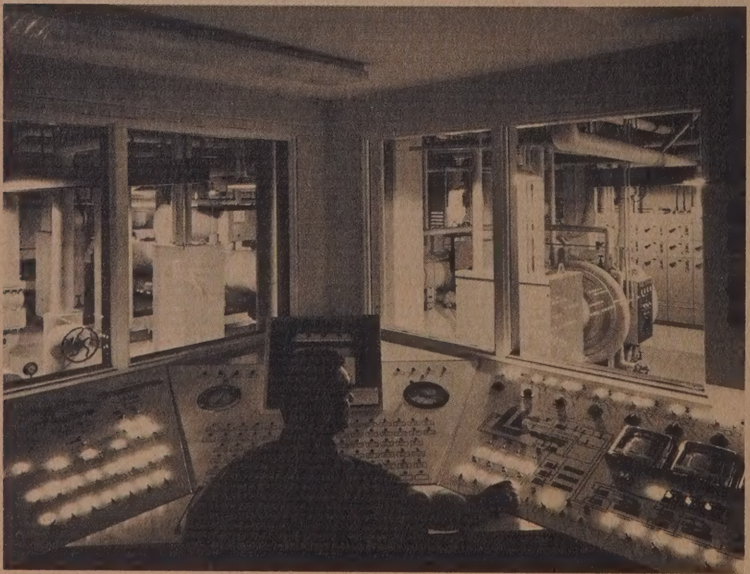
STOCK TRANSFER AGENTS

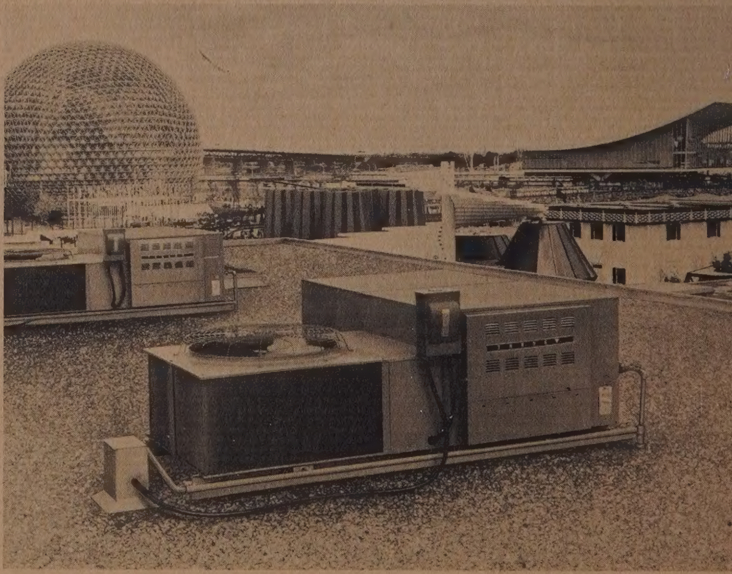
Morgan Guaranty Trust Company of New York
Harris Trust & Savings Bank, Chicago, Illinois

REGISTRARS OF STOCK

Manufacturers Hanover Trust Company, New York
The First National Bank of Chicago, Chicago, Illinois







More and more new and existing homes enjoy the year-round comfort of Trane central air conditioning. Shown is the Trane split system Climate Changer unit.

Equipment control center overlooks Trane centrifugal refrigeration units which provide chilled water to cool a large modern office building.

Expo 67 — where many of the leading buildings featured air conditioning by Trane.

THE TRANE COMPANY — LA CROSSE, WISCONSIN